

Indirect medical education payments above the costs of teaching

ISSUE: The indirect medical education (IME) payment for hospital inpatient services is set at more than twice the measured impact of teaching on hospital costs per discharge. Should the subsidy portion of the payment be reduced further than the cut scheduled under current law, with the savings returned to the base payment rates?

KEY POINTS: Teaching hospitals have historically had higher costs than other hospitals, even after accounting for costs associated with graduate medical education training programs (resident and teaching physician salaries and associated overhead costs). The IME adjustment was provided in light of doubts about the ability of the DRG classification system to account fully for factors such as severity of illness that might legitimately increase teaching hospitals' inpatient operating costs.

The IME adjustment is currently set at 6.5 percent per 10 percent increment in teaching intensity, while the current cost relationship between teaching intensity and hospital cost per case would support an adjustment of 3.2 percent (or 3.1 percent when capital costs are also considered). The 3.3 percent subsidy contributes to a substantial difference in margins between teaching and other hospitals. The Medicare inpatient margin for major teaching hospitals in 1999 was 22.3 percent compared to a margin of 6.5 percent for nonteaching hospitals. These differences would narrow substantially if DSH payments and the portion of IME payments above the cost relationship were removed from the margin calculation. Nevertheless, the inpatient margin for major teaching hospitals would stay about 3 percentage points above that for nonteaching hospitals.

The subsidy portion of the IME payment will be cut by about 30 percent in 2003, when the IME adjustment will drop to 5.5 percent. However, the subsidy portion of the IME payment will still account for more than 6 percent of Medicare inpatient revenue for major teaching hospitals and 2 percent of inpatient payments for all hospitals.

Unlike inpatient Medicare margins, total margins for major teaching hospitals are lower than those for other hospitals, 2.4 percent compared with 4.0 percent in 1999. IME payments above the teaching cost relationship currently account for about 1.8 percent of total revenues for major teaching hospitals; thus they are a major factor in keeping teaching hospitals total margins above zero.

ACTION: The Commission should discuss whether it wants to include a discussion and recommendation on the subsidy portion of the IME payment in the March report. The Commission could defer action until next year if it wishes to look at the issue in greater depth.

STAFF CONTACT: Craig Lisk (202-653-2628) and Jesse Kerns (202-652-5838)